



Report and Recommendation of the President to the Board of Directors

Project Number: 47174-002
Loan Number: 3387
August 2019

Proposed Loan for Additional Financing Mongolia: Regional Improvement of Border Services Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 July 2019)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0003758
\$1.00	=	MNT2,660.75

ABBREVIATIONS

ADB	–	Asian Development Bank
BCP	–	border-crossing point
CAREC	–	Central Asia Regional Economic Cooperation
EMP	–	environmental management plan
GRM	–	grievance redress mechanism
IEE	–	initial environmental examination
MCGA	–	Mongolian Customs General Administration
MOF	–	Ministry of Finance
O&M	–	operation and maintenance
PAM	–	project administration manual
PIU	–	project implementation unit
PRC	–	People's Republic of China

NOTE

In this report, "\$" refers to United States dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	5
E. Implementation Arrangements	6
III. DUE DILIGENCE	7
F. Technical	7
G. Economic and Financial	7
H. Governance	8
I. Poverty and Social	8
J. Safeguards	8
K. Risks and Mitigating Measures	10
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Revised Design and Monitoring Framework	11
2. List of Linked Documents	15

PROJECT AT A GLANCE

1. Basic Data		Project Number: 47174-002	
Project Name	Regional Improvement of Border Services Project (Additional Financing)	Department /Division	EARD/EAPF
Country Borrower	Mongolia Government of Mongolia	Executing Agency	Ministry of Finance (formerly Ministry of Finance and Economy)
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Industry and trade sector development		27.00
		Total	27.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional systems and political economy	Some gender elements (SGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
General Intervention on Poverty	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		27.00	
Sovereign Project (Concessional Loan): Ordinary capital resources		27.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.78	
Government		2.78	
Total		29.78	
Currency of ADB Financing: USD			

MONGOLIA

REGIONAL IMPROVEMENT OF BORDER SERVICES

(additional financing)

TOTAL **46** BORDER CROSSING POINTS (BCPs)
 Operational **19** road BCPs (rest seasonal)
 with **11** BCPs in the People's Republic of China
 with **8** BCPs in the Russian Federation



0 50 100 150 200 250
 Kilometers

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- Project Border Crossing Point
 - Other Border Crossing Point
 - ★ National Capital
 - Provincial Capital
 - Main Road
 - Provincial Road
 - Railway
 - Provincial Boundary
 - - - - International Boundary
- Boundaries are not necessarily authoritative.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for additional financing of the Regional Improvement of Border Services Project.
2. The additional financing will scale up the Regional Improvement of Border Services Project (the ongoing project) by (i) upgrading facilities and equipment at two border-crossing points (BCPs)—Bichigt, bordering the People's Republic of China (PRC) in the east; and Borshoo, bordering the Russian Federation (Russia) in the west; and (ii) providing capacity development support for Mongolia border agencies. The infrastructure, facilities, and equipment at the Bichigt and Borshoo BCPs are outdated and inadequate to provide high standards of trade facilitation and immigration services and accommodate anticipated growth in cross-border trade.¹

II. THE PROJECT

A. Rationale

3. The Asian Development Bank (ADB) approved the ongoing project on 22 April 2016 and the project loan became effective on 11 July 2016, with ADB providing \$27 million in financing from its ordinary capital resources. The ongoing project comprised the following three outputs: (i) improvement of the Altanbulag, Zamiin-Uud, and Bichigt BCPs through infrastructure rehabilitation and provision of equipment (\$14.25 million); (ii) upgrading of the customs automated information system; and (iii) preparatory work for the development of a single electronic window system² in Mongolia (about \$10 million total for outputs 2 and 3).
4. A year into implementation, the Government of Mongolia (the government) requested that resources for the partial rehabilitation of the three BCPs (output 1) be reallocated to a comprehensive upgrading of the BCP in Selenge province³ (Altanbulag is the road BCP that only operates 24 hours per day in Mongolia and Sukhbaatar is the BCP for rail transport). ADB approved the minor change in scope on 20 October 2017 and, following this approval, output 1 comprised: (i) a comprehensive upgrading of facilities at the Altanbulag BCP; (ii) provision of basic equipment to strengthen customs processing capacity at the Altanbulag, Zamiin-Uud, and Bichigt BCPs; (iii) construction of a 1.6-kilometer bypass road from the Altanbulag BCP to the main road; and (iv) construction of a single-stop service center for all border agencies⁴ at the Sukhbaatar BCP. The ongoing project's closing date is 31 December 2023.
5. The ongoing project is evaluated as *performing well*: (i) it is rated *on track*; (ii) there is full compliance with the safeguard covenants;⁵ (iii) management of risks is rated *successful*; and (iv)

¹ The additional financing is included in ADB. 2017. [Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty](#). Manila; and ADB. 2018. [Country Operations Business Plan: Mongolia, 2019–2021](#). Manila. On 7 December 2018, ADB approved transaction technical assistance for Preparing Regional Cooperation and Integration Projects in Mongolia.

² As specified in the United Nations Centre for Trade Facilitation and Electronic Business Recommendation Number 33, the Single Electronic Window System is a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once.

³ Both Altanbulag and Sukhbaatar BCPs are located in Selenge province, bordering the Russian Federation (Russia) in the north. Both BCPs belong to Selenge branches of the four border agencies.

⁴ According to the Mongolian Law on Border, Mongolian Customs General Administration, General Agency for Specialized Inspection, General Authority for Border Protection and Mongolia Immigration Agency are considered as border agencies.

⁵ Since actual construction activities have not started, no safeguards implementation monitoring reports have been produced.

civil works contracts worth \$12.9 million are expected to be awarded in Q4 2019. As of 26 June 2019, the cumulative contract award amount was \$3.20 million, or 11.9% of the net loan amount, while the cumulative disbursement was \$2.18 million, or 8.1% of the net loan amount. The main reasons that contract awards and disbursements are comparatively low are: (i) re-organization of the government following the parliament election in June 2016; (ii) start-up problems that the project implementation unit (PIU) was facing (i.e., delays in recruitment of the project implementation unit (PIU) staff; establishment of consultant selection committees and bid evaluation committees and preparation of the terms of reference for major procurement packages; (iii) the minor change of scope for output 1 that had to be processed prior to the actual implementation of the project; and (iv) the need to prepare conceptual and detailed engineering designs and realistic cost estimates for the proposed infrastructure facilities during project implementation. However, these start-up problems were resolved in close consultation with executing and implementing agencies. Currently, the detailed engineering designs of all proposed BCP facilities have been prepared and the procurement of the civil works contractors is ongoing. As a result, over the elapsed project implementation period time (43% as of 26 June 2019), implementation stands at 25%.

6. **Additional financing.** The proposed additional financing is needed to scale up the ongoing project by (i) comprehensively upgrading facilities and equipment at Bichigt BCP and include Borshoo BCP, and (ii) providing capacity development support to targeted border agencies.

7. **Development challenges.** The rationale of the ongoing project continues to be valid for the additional financing. As a landlocked country between the PRC and Russia, a large share of Mongolia's gross domestic product is linked to foreign trade. From 2009 to 2017, exports increased from about \$1.9 billion to \$6.2 billion. Over that same period, imports increased from \$2.1 billion to \$4.3 billion.⁶ Mongolia's exports are heavily concentrated in mineral products, which increased from 40% of total exports in 2004 to 89% of total exports in 2017.⁷ While this export-led growth model contributed to an average economic growth rate of 7% per year from 2009 to 2018, the model is highly vulnerable to fluctuations in mining-related foreign direct investment (FDI) and commodity price volatility. Economic growth fell from a high of 17.3% in 2011 to 1.2% in 2016, coinciding with a drop in international mineral prices, before recovering again in succeeding years, driven by increases in FDI and exports.

8. Another key constraint on export-led growth is the poor quality of border crossing facilities (dilapidated infrastructure, use of outdated equipment, and low utilization of information and communication technology). This results in high trade costs that undermine the competitiveness and diversification of Mongolia's exports. Long and unpredictable transportation times constrain exports and weaken Mongolia's ability to participate in global production networks. Bottlenecks at the border also drive up the cost of importing key inputs for manufacturing, which in turn limits the country's production and suppresses exports of manufactured goods. Investments in BCPs and customs operations can thus significantly reduce trade-related transaction costs while increasing cross-border trade volumes. In response, ADB has been supporting the improvement of border facilities in Mongolia.

9. The Bichigt BCP is Mongolia's closest gateway to the sea through a seaport in the PRC (Jinzhou Port), which is connected by extensive road and rail links to the PRC's northeast. Jinzhou Port is one of the few ports in the PRC that is both rail-served and has the capacity to handle

⁶ ADB. 2018. [Key Indicators for Asia and the Pacific 2018](#). Manila.

⁷ Bank of Mongolia. 2017. [Mongolia's Foreign Trade Review December 2017](#). Ulaanbaatar.

transit trade from Mongolia. However, the Bichigt BCP is underutilized because of the poor state of its facilities—in contrast to Zuun Khataavch on the PRC side of the border, which has high throughput capacity, modern customs facilities, and good connectivity infrastructure.⁸

10. The anticipated growing strategic importance of the Borshoo BCP in the Western Mongolia and its planned upgrade to international status in 2019 drove selection of Borshoo for additional financing.⁹ This is in line with a bilateral connectivity agreement between Mongolia and Russia, signed in 2007, which gained renewed commitment following a visit by Mongolia's Minister of Foreign Affairs to Moscow in May 2018.¹⁰ The National Urban Assessment for Mongolia conducted as part of the ADB supported technical assistance¹¹ in 2017 has identified priority regional urban cluster systems as key assets to catalyze local urban economic growth. The tranche 1 of the proposed Aimag and Soum Centers Regional Development Investment Program will target west regional urban clusters as Ulaangom (114 kilometer from Borshoo BCP), Ulgii, and Khovd.

11. The government expects the two BCPs to become increasingly functional gateways for Mongolia's bilateral and transit trade with and through the PRC and Russia. Statistics¹² show that usage of these BCPs is growing despite their limited capacity. At Bichigt, cross-border passenger flows increased by about 80% from 2015 to 2017, while trade turnover more than tripled to \$220 million during the same period (with exports accounting for 86% of that).¹³ In Borshoo, trade turnover increased by 27% in 2018 compared with 2017, from \$22.5 million to \$28.5 million.¹⁴ The economic analysis prepared for the project projected that by 2026 trade turnover in Bichigt will almost double to \$400 million (including \$95 million in imports), while trade turnover in Borshoo will more than triple to \$95 million (mostly imports). Finally, improved BCPs will create regional benefits in the form of cost and time savings.

12. Key innovative features of the project include a tailor-made process for designing the BCPs (fully reflective of local circumstances, informed by the use of real-time corridor performance measurement and monitoring data); a design process that is used in the BCPs that receive support from ADB has served as a model for support to other BCPs; and preparation of conceptual and detailed engineering designs prior to Board approval.

13. The additional financing of the ongoing project complies with the eligibility criteria for additional financing by ADB. The project remains technically feasible as well as economically viable and financially sound. Activities and outputs under the additional financing are accorded high priority by the government and are aligned with ADB's country partnership strategy for Mongolia, 2017–2020 and the country operations business plan for Mongolia, 2019–2021.¹⁵

⁸ Government resolution No.142 of 10 May 2017 (National Road Development Plan) includes provisions to renovate the Bichigt BCP. The National Council on Border Development (Decree No.2 dated 7 June 2018) accorded the rehabilitation of the Borshoo BCP.

⁹ BCPs with international status can be crossed by 3rd country citizens, i.e., citizens from countries other than the two bordering countries.

¹⁰ The Russian Government is investing in developing this border area as a node of cross-border connectivity by constructing a connecting road to the M54 federal highway (linking the area to a vast road network), with completion expected by 2020.

¹¹ ADB. 2017. *Technical Assistance for Mongolia for Preparing the Aimag and Soum Centers Regional Development Investment Program*. Manila.

¹² Mongolian Customs General Administration. <http://www.customs.gov.mn/en/>

¹³ Including imports and exports.

¹⁴ Mongolian Customs General Administration. <http://www.customs.gov.mn/en/>

¹⁵ ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty*. Manila; and ADB. 2018. *Country Operations Business Plan: Mongolia, 2019–2021*. Manila.

14. **Strategic fit.** The ongoing project was conceptualized within the framework of the Central Asia Regional Economic Cooperation (CAREC) program's Transport and Trade Facilitation Strategy 2020, and the ongoing project contributes to CAREC's Integrated Trade Agenda 2030.¹⁶ As such, it supports ADB's goal to improve trade competitiveness along the CAREC corridors. The scope for the additional financing for the upgrade of the Borshoo and Bichigt BCPs is fully aligned with the strategic fit of the ongoing project.

15. Furthermore, the proposed additional financing is (i) aligned with the Action Plan of the Government of Mongolia, 2016–2020 to improve BCPs and expand trade; (ii) accorded high priority by the government, with a high degree of project readiness (the government financed the detailed design for Borshoo); (iii) consistent with the country partnership strategy, 2017–2020, which emphasizes the need to improve physical connectivity and trade facilitation to enhance the competitiveness of the Mongolian economy (pillar 2);¹⁷ (iv) consistent with ADB's Strategy 2030 and Operational Cluster 2 (trade, tourism, and economic corridors) of CAREC 2030;¹⁸ (vi) contributing to the implementation of the operational directions 1 (connectivity) and 2 (competitiveness) of the Regional Cooperation and Integration Operational Plan, 2016–2020;¹⁹ and (vii) based on firm due diligence to ensure the technical feasibility, economic viability, and financial soundness of the proposed investment components.

16. The additional financing is an integral part of a wider framework of existing and pipeline projects for regional cooperation and integration projects in Mongolia and selected border provinces of the PRC.

17. The additional financing modality is the most appropriate and efficient modality to fund the proposed expansion of the ongoing project. The current implementation arrangements for the ongoing project (e.g., project steering committee, executing and implementing agencies, PIU, procurement arrangements, and financial management arrangements) will be maintained, and the conceptual and detailed engineering designs of the proposed two BCPs are being developed in parallel to project preparation, thus ensuring a high degree of readiness for the implementation of the additional financing.

B. Impact and Outcome

18. The project is aligned with the following impact: trade and competitiveness increased. The project will have the following outcome: cost and time of compliance with trade procedures reduced. The impact and outcome will be aligned with the ongoing project.

C. Outputs

19. The proposed additional financing will yield the following outputs, of which output 1 will be aligned with the ongoing project:

- (i) **Output 1: Facilities and equipment at Bichigt and Borshoo border-crossing points upgraded.** This will entail upgrading buildings, operational structures

¹⁶ Central Asia Regional Economic Cooperation and Asian Development Bank. 2014. [CAREC Transport and Trade Facilitation Strategy 2020](#). Manila; and ADB. 2019. [CAREC Integrated Trade Agenda 2030 and Rolling Strategic Action Plan 2018–2020](#). Manila.

¹⁷ ADB. 2017. [Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty](#). Manila.

¹⁸ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila; and ADB. 2017. [CAREC 2030: Connecting the Region for Shared and Sustainable Development](#). Manila.

¹⁹ ADB. 2016. [Operational Plan for Regional Cooperation and Integration \(2016–2020\)](#). Manila.

(inspection canopies, disinfection facility), heating supply, power sources and lines, water supply, wastewater treatment, communication lines, x-ray equipment, weight bridge, and CCTV).

- (ii) **Output 2: Capacity development support provided.** This output includes technical training for border agencies in Mongolia on coordinated border management, risk management, training management, performance management, advance ruling,²⁰ time release study,²¹ illegal trade of goods or wildlife, prevention of the spread of HIV, and prevention of human trafficking. Training and capacity development activities will include sensitization on gender and environmental issues.

D. Investment and Financing Plans

20. The project is estimated to cost \$29.78 million (Table 1). Detailed cost estimates by expenditure category, financier, and year are included in the project administration manual (PAM).²²

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount	Additional Financing ^a	Total
A. Base Cost			
1. Infrastructure and equipment at border-crossing points	14.85	25.68	40.53
2. Upgrade of customs automated information system	2.44	0	2.44
3. Single electronic window system preparation	7.68	0	7.68
4. Project management	0.78	0.59	1.37
5. Capacity development	0	0.42	0.42
Subtotal (A)	25.75	26.69	52.44
B. Contingencies^b	1.70	1.26	2.96
C. Interest During Construction^c	1.62	1.83	3.45
Total (A+B+C)	29.07	29.78	58.85

^a In mid-2019 prices as of May 2019. The government will finance an additional \$2.78 million in the form of a 10% value-added-tax exemption on goods, works, and consulting services (excluding consulting services provided by the individual consultants), and a 5% customs-duties exemption on goods. The government will provide in-kind contribution in the form of the conceptual and detailed engineering design of the Borshoo border-crossing point.

^b Physical contingencies are computed at 2.0% for civil works. Price contingencies are computed at 1.6% on foreign exchange costs and 8.1% on local currency costs; this includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^c Interest during implementation for the Asian Development Bank loan has been computed at 2%.

Source: Asian Development Bank estimates.

21. The revised overall project cost, including the additional financing, is estimated at \$58.85 million. The government has requested a concessional loan of \$27 million from ADB's ordinary capital resources to help finance the project.²³ The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement.

²⁰ Advance rulings are binding decisions by Customs at the request of the person concerned on specific particulars in relation to the intended importation or exportation of goods. Advance rulings can be requested with regard to either the classification, the origin or the Customs value of the goods in preparation for importation or exportation.

²¹ The World Customs Organization's Time Release Study is a strategic and internationally recognized tool to measure the actual time required for the release and/or clearance of goods, from the time of arrival until the physical release of cargo, with a view to finding bottlenecks in the trade flow process and taking necessary measures to improve the effectiveness and efficiency of border procedures.

²² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

²³ COL regional allocation was approved in November 2018.

22. The government will finance an additional \$2.78 million through in-kind contributions and exemptions of value-added tax and customs' duties. ADB will finance 90.7% of the project cost, and the government will finance the remaining 9.3% for project implementation of the additional financing. The summary financing plan is in Table 2.

Table 2: Financing Plan

Source	Current		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Ordinary capital resources (OCR–COL)	27.00	92.88	27.00	90.7	54.00	91.76
Government	2.07	7.12	2.78	9.3	4.85	8.24
Total	29.07	100.0	29.78	100.0	58.85	100.0

COL = concessional OCR lending, OCR = ordinary capital resources.

Source: Asian Development Bank.

E. Implementation Arrangements

23. The additional financing will follow the same implementation arrangements as the ongoing project. The Ministry of Finance (MOF) will be the executing agency and will oversee the overall project implementation and management activities. The Mongolian Customs General Administration (MCGA) will be the implementing agency. The PIU established under the ongoing project will oversee day-to-day management and liaise with all relevant government offices. A project steering committee, chaired by the MOF, will facilitate successful project implementation.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	October 2019–December 2023		
Estimated completion date	31 December 2023		
Estimated loan closing date	30 June 2024		
Management			
(i) Oversight body	MOF established and chaired the PSC. The PSC is composed of senior officials of the MOF, MCGA, cabinet secretariat, General Authority for Border Protection, Mongolia Immigration Agency, Ministry of Foreign Affairs, General Agency for Specialized Inspection, Information and Communication Technology and Post Authority, and Mongolian National Chamber of Commerce and Industry.		
(ii) Executing agency	MOF		
(iii) Key implementing agency	MCGA		
(iv) Implementation unit	MOF established a PIU with eight staff. It is headed by a project coordinator and includes a deputy coordinator/ICT specialist, infrastructure specialist, procurement specialist, finance specialist, monitoring and evaluation specialist, administrative officer, and a driver. Under the additional financing, MOF will recruit three additional staff (infrastructure specialist, procurement specialist, and driver).		
Procurement	International competitive bidding	1 contract	\$3.6 million
	National competitive bidding	6 contracts	\$18.35 million
	Shopping	3 contracts	\$0.08 million
Consulting services	Quality- and cost-based selection	2 contracts (80 person-months)	\$0.9 million
	Individual consultant selection	69.5 person-months	\$0.295 million
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, ICT = information and communication technology, MCGA = Mongolian Customs General Administration, MOF = Ministry of Finance, PIU = project implementation unit, PSC = project steering committee.

Source: ADB

24. All procurement to be financed by ADB will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). All consulting services to be financed under the project will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The project team will align the project implementation, procurement, and financial management with the government's standard operating procedures.

III. DUE DILIGENCE

F. Technical

25. The MCGA has embarked on several reform and modernization initiatives aimed at easing the flow of goods and persons across borders. By using information technology in particular, it has managed to improve operational efficiency and effectiveness. The government and the project team assessed the operations of customs and other border agencies at the two additional BCPs, particularly in relation to how the flow of goods and people through the border might be improved and contribute to facilitating trade. Based on the performance of customs agencies and an evaluation of existing capacity, the government will procure equipment to enable each BCP to carry out inspections more swiftly and efficiently.²⁴ The project consultants will train the staff on how to use the equipment.

G. Economic and Financial

26. The financial analysis included an assessment of financial sustainability of both MOF and MCGA to determine the fiscal impact of the incremental recurrent costs, including operation and maintenance (O&M) costs during operations. Similar to most ministries in Mongolia, the implementing agency relies heavily on central government funding. The analysis confirmed that, given the unpredictability of budget allocations, the risk to financial sustainability is substantial. The analysis indicated that this risk has been sufficiently mitigated through the inclusion in the loan agreement of an assurance that the government will allocate adequate budgetary resources. These will cover the recurrent costs associated with O&M of the information technology systems and other facilities to be upgraded under the project. The fiscal impact of the project falls well within the government's projected revenue capacities.

27. The project team found the proposed additional financing to be economically viable, with an overall economic internal rate of return of 11.2% and economic net present value of MNT11.7 billion. When assessed individually, each investment in the four-total project BCPs are also estimated to yield returns above the 9% threshold. In each BCP, the additional investment and recurrent costs are expected to be offset by time savings for customs officials and travelers, as well as for transporters and traders from faster turnaround of goods; and increased trade activity in the project BCPs, which are in strategic locations along Mongolia's borders with Russia and the PRC. The overall project has an economic internal rate of return of 14.4% and economic net present value of MNT53.2 billion.

²⁴ Including but not limited to x-ray machines, testing equipment for narcotics and explosives, closed-circuit television, and base station monitors and surveillance.

H. Governance

28. Through the financial management assessment update, the project team assessed the capacity of the Ministry of Finance (as the executing agency) and the PIU, which has been performing satisfactorily on the ongoing project and will continue to handle all project financial matters. The updated financial management capacity assessment concluded that the overall project financial management risk is *moderate*. This rating is based on the observation that the PIU is well-established and functioning well. To further improve project governance, the government will strengthen the PIU's internal audit function. Since the project concerns additional financing that will be implemented by the same PIU and through the same implementation arrangements as the ongoing project, the same guidelines for procurement and consulting services will be followed.

29. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MOF. The specific policy requirements and supplementary measures are described in the PAM.

I. Poverty and Social

30. As a landlocked country, Mongolia needs to improve trade facilitation, enter into transit and international trade arrangements, and attract FDI to boost its competitiveness and promote sustainable and inclusive growth. Constraints such as inadequate BCP infrastructure and cumbersome border procedures must be overcome to improve the performance of CAREC corridors, minimize the economic impact of Mongolia's geographic isolation, foster more diverse economic activity, and realize the full economic potential of the country. Encouraging local people, especially women, to participate in cross-border trade is another priority.

31. Direct impacts of the project will be improved efficiency of importing and exporting and increased local employment opportunities resulting from an increase in trade. By eliminating physical and administrative obstacles to trade at BCPs, the project will contribute to a general lowering of goods prices. Better infrastructure at BCPs, modern equipment, and streamlined customs procedures will reduce waiting times at BCPs and ease the flow of products across borders. Improved trade logistics will decrease the cost of doing business. These should lead to lower consumer prices in markets, thereby contributing to improved living standards and increased international competitiveness for Mongolia.

32. Regarding gender mainstreaming, the project is classified *some gender elements*. A comprehensive policy and legal framework will deal with gender and social dimensions. Improved access to economic opportunities such as cross-border trade and enhanced rights and security will help minimize gender disparity. The social development action plan outlines proactive gender design features, indicators, and targets. The project design includes actions to build the capacity of customs and border staff to address communicable diseases and respond to human trafficking, sexual harassment, exploitation, and abuse.

J. Safeguards

33. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.

34. **Environment (category B).** The project team has prepared an initial environmental examination (IEE), including an environmental management plan (EMP), in accordance with ADB's Safeguard Policy Statement (2009), for the components to be supported through additional

financing. The project team has discussed the IEE with the central government counterparts and the staff of the two BCPs. The EMP outlines mitigation and monitoring requirements and institutional responsibilities to ensure proper environmental management throughout construction and O&M. The executing agency, through the PIU, will be responsible for the implementation of the EMP and for compliance with Mongolian national laws and regulations, including inspection, monitoring, reporting, and corrective actions or measures.²⁵

35. No unprecedented or irreversible impacts on the environment are anticipated. Short-term impacts are anticipated during construction, including dust, noise, and waste generated during earthwork and civil works activities. O&M training and performance monitoring will minimize operational impacts and risks and optimize environmental benefits. The project's climate change impact will be low. The IEE concludes that effective EMP implementation, together with training, will result in residual impacts within the limits of the Mongolian standards defined in the EMP. The PIU has a proven track record in supporting the implementation of safeguards. No further capacity development will be required. The project team disclosed information and conducted meaningful public consultations for the project components through face-to-face meetings with local inhabitants at four locations near the Bichigt BCP on 13 May 2019, and in Sagil County and Ulaangom center near the Borshoo BCP on 19–22 May 2019. MOF will establish a project-level grievance redress mechanism (GRM) in compliance with the Safeguard Policy Statement requirement to receive and facilitate resolution of complaints about the project during the construction and operation phases. The GRM includes procedures for receiving grievances; documenting key information; and evaluating and responding within a reasonable time frame to environmental, health, and safety concerns associated with the project construction and operation. The proposed project-level GRM, including a time-bound flowchart of procedures, is included in Section G of the project EMP.²⁶

36. **Involuntary resettlement (category C).** There will be no land acquisition or involuntary restrictions on land use or access to legally designated parks and protected areas. The Borshoo BCP is located on land owned by the local Customs Office, while the Bichigt BCP will be relocated on vacant state-owned land that has not been allocated to any entities.²⁷ Therefore, the project will not physically or economically displace any persons or households or adversely impact the livelihood or sources of income of any persons or households.

37. **Indigenous peoples (category C).** There are no communities near the BCPs. The BCPs are located in provinces inhabited by ethnic groups such as Dariganaga, Durvud, and Khoton. They are not considered distinct indigenous groups by the government or ADB's indigenous peoples' criteria.

²⁵ On behalf of the government, the PIU has updated the IEE for the ongoing project to reflect the change of scope; the EMP for the ongoing project is included in relevant bidding documents.

²⁶ The additional financing is complemented by an ongoing ADB-supported project that seeks to strengthen sanitary and phytosanitary measures around cross-border trade (ADB. [Mongolia: Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project.](#))

²⁷ As confirmed through a letter from the Mongolian General Authority for Border Protection (dated 27 June 2019), which stipulated that, in accordance with Clause 26.1 of Article 26 of the Mongolian Law on Border effective on 1 February 2017, "State border is the territory that has set up special procedure without enforcing the state borders regulation, setting up borders and checking authority, setting up border engineering and technical facilities for more than 15 kilometers within the national boundary line. The BCP at Bichigt and the security of the border port are an integral part of state border protection."

K. Risks and Mitigating Measures

38. The benefits and impacts of the overall project are expected to outweigh the costs and risks, while the overall risk after mitigation measures are in place will be moderate. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁸

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Expanded project scope, which will require recruitment of an additional project management specialist, with strong financial management skills, and additional procurement staff. The new recruits will have limited understanding of ADB guidelines on financial management and procurement.	The project team and the ADB will organize a series of procurement workshops and specialized training for the new recruits.
Lack of operational and financial sustainability after project completion.	The government has assured ADB (reflected in the loan agreement) that it will allocate adequate budgetary resources to cover the recurrent costs associated with O&M of the IT systems and other facilities to be upgraded under the project. The implementing agency will prepare O&M plans.

ADB = Asian Development Bank, IT = information and technology, MCGA = Mongolian Customs General Administration, MOF = Ministry of Finance, O&M = operation and maintenance, PIU = project implementation unit.
Source: Asian Development Bank.

IV. ASSURANCES

39. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

40. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

41. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$27,000,000 to Mongolia for the additional financing of the Regional Improvement of Border Services Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

7 August 2019

²⁸ Updated Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

REVISED DESIGN AND MONITORING FRAMEWORK

The impact of the project is aligned with: Ongoing project Trade and competitiveness increased. (CAREC Transport and Trade Facilitation Strategy 2020 and CAREC Integrated Trade Agenda 2030) ^a Overall project Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms ^b	Risks
Outcome			
Ongoing project Cost and time of compliance with trade procedures reduced	By 2026: 1a. Time and cost to cross project BCPs reduced by 30% (2014 baseline: Altanbulag BCP—4.8 hours, \$659; Bichigt BCP—3.7 hours, \$660; and Zamiin-Uud BCP—8.7 hours, \$383)	Ongoing project CAREC CPMM quarterly and annual reports CAREC TSCC and CCC annual reports GACT semi-annual reports	Upcoming election in June 2020 could redirect government priorities and lead to transitional and implementation delays (added)
Overall project Unchanged	Overall project By 2026: 1. Time and cost to cross project BCPs reduced by 30% (2014 baseline: Altanbulag BCP—4.8 hours, \$659; Bichigt BCP—3.7 hours, \$660; and Zamiin-Uud BCP—8.7 hours, \$383; and 2019 baseline: Borshoo BCP—PIU and MCGA will collect the data for 2018 from MCGA) (added)	Overall project CAREC CPMM quarterly and annual reports CAREC TSCC and CCC annual reports (changed)	
Outputs			
Output 1 Ongoing project 1. Facilities and equipment at BCPs upgraded and improved	Ongoing project 1a. Civil works completed with the required facilities by 2021 (2014 baseline: 0) 1b. Needed equipment installed at project BCPs by 2021 (2014 baseline: 0) 1c. Separate lanes for inspection of women traders established	Ongoing project Quarterly progress reports from contractors Updates to CAREC annual senior officials meeting and ministerial conference CFCFA reports CAREC CPMM quarterly and annual reports	Insufficient commitment and coordination among key ministries and agencies (added)
Overall project Unchanged	Overall project 1a. Civil works completed with the required universal standard facilities (to cater to PWDs, elderly, and nursing mothers)	Overall project. Quarterly progress reports from contractors and updates to CAREC annual SOM	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms ^b	Risks
	<p>by 2025 (2014 baseline: 0) (updated)</p> <p>1b. Needed equipment installed at project BCPs by 2025 (2014 baseline: 0) (updated)</p> <p>1c. (merged with 1a)</p>	and Ministerial Conference (changed)	Limited availability of construction [period] could cause additional delays.
<p>Output 2</p> <p>Ongoing project 1. Communication infrastructure for CAIS improved and GACT systems made interoperable</p> <p>Overall project Unchanged.</p> <p>Output 3</p> <p>Ongoing project Preparatory work for single-window system undertaken</p> <p>Overall project Unchanged.</p> <p>Output 4 Overall project Capacity of relevant border agencies improved (added)</p>	<p>Ongoing project 2a. CAIS functional requirements developed and operational by 2026 (2010 baseline: basic application development)</p> <p>2b. GACT systems seamlessly exchange information by 2026 (2014 baseline: no automated information exchange)</p> <p>Overall project 2a–2b. Unchanged.</p> <p>Ongoing project 3a. Time to prepare and process export and import documents reduced by 50% in Mongolia by 2025 (2015 baseline: 37 hours for export and 22 hours for import)</p> <p>Overall project 3a. Institutional arrangements in place and operational.</p> <p>3b. First generation single electronic window system to be piloted among key border agencies by 2025 (2019 baseline: no single electronic window system exists) (updated in line with the output)</p> <p>Overall project 4a. 200 participants reflecting a gender balance in line with the composition of the workforce trained in gender-sensitive and coordinated border management, risk management, training management, performance management, advance ruling,</p>	<p>2a. Quarterly progress reports from the ICT firm</p> <p>2b. GACT^c semiannual report</p> <p>3a. World Bank–International Finance Corporation Annual Doing Business indicators</p> <p>4a. Self-assessment, and feedback report from participants</p>	<p>Slow decision-making process as a result of structural changes after the creation of the new GACT^c</p> <p>Lack of participation and engagement by other trade-related agencies in the single-window system</p> <p>High staff turnover between border agencies and BCPs that will limit the effectiveness of training programs</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms ^b	Risks
	and time release study skills by 2025 (2018 baseline: 0) (added)		
<p>Key Activities with Milestones</p> <p>Output 1: Facilities and equipment at BCPs upgraded and improved (updated)</p> <p>Ongoing project</p> <p>1.1 Identify and technically appraise subprojects (Q2–Q3 2017) (completed)</p> <p>1.2 Prepare engineering designs and equipment inventory (Q2–Q3 2017) (completed)</p> <p>1.3 Prepare bid documents (Q3 2017) (completed)</p> <p>1.4 Award contracts for goods, works, and services (Q2 2018) (ongoing)</p> <p>1.5 Construct and provide equipment (Q2 2018–Q1 2021)</p> <p>1.6 Test and operationalize facilities and equipment (Q2–Q3 2021)</p> <p>Overall project</p> <p>1.1–1.6 Unchanged</p> <p>Bichigt and Borshoo BCPs: (added)</p> <p>1.7 Award contracts for goods, works, and services (Q2 2020)</p> <p>1.8 Construct and provide equipment (Q3 2020–Q3 2023)</p> <p>1.9 Test and operationalize facilities and equipment (Q2 2022–Q3 2023)</p> <p>Output 2. Communication infrastructure for CAIS improved and GACT systems made interoperable (all activities unchanged)</p> <p>2.1 Technical appraisal (standards and specifications) (Q2 2017) (completed)</p> <p>2.2 Prepare bid documents (Q3 2017) (ongoing)</p> <p>2.3 Award contracts for goods and services (Q1 2018) (ongoing)</p> <p>2.4 Develop the system and provide equipment (Q2 2018–Q3 2020) (ongoing)</p> <p>2.5 Test and operationalize the system (Q4 2020–Q2 2021)</p> <p>Output 3: Preparatory work for single electronic window system undertaken (all activities unchanged)</p> <p>3.1 Undertake business process analysis (Q2 2018) (ongoing)</p> <p>3.2 Streamline trade procedures (Q3 2019) (ongoing)</p> <p>3.3 Establish interagency coordination mechanism (Q2 2021) (ongoing)</p> <p>3.4 Develop strategy to integrate existing IT-related initiatives for a single-window platform (Q1 2018– Q4 2021)</p> <p>3.5 Develop targeted single-window application (Q3 2018–Q4 2019)</p> <p>Output 4: Capacity of relevant border agencies improved (added)</p> <p>4.1 Prepare capacity and training needs assessment (Q2 2020)</p> <p>4.2 Develop capacity-building programs and prepare schedule of training programs (Q3 2020)</p> <p>4.3 Implement training and capacity development activities (Q4 2020–Q4 2023)</p> <p>4.4 Conduct post-training surveys and assessments (Q3 2020–Q4 2023)</p> <p>Project Management Activities (updated)</p> <p>Manage the implementation of procurement plans (Q2 2017–Q4 2021, extended to Q4 2023) (ongoing)</p> <p>Prepare and update monitoring and evaluation systems and ensure timely delivery of outputs (Q2 2017–Q4 2021, extended to Q4 2023) (ongoing)</p> <p>Deliver and evaluate training courses (Q4 2020–Q2 2021, extended to Q4 2023) (ongoing)</p> <p>Conduct skills assessments of CAIS and single-window staff (Q1 2021)</p> <p>Implement the SDAP (all through the project) (unchanged) (ongoing)</p>			
<p>Inputs</p> <p>ADB:</p> <p>\$27,000,000 (loan) (current)</p> <p>\$27,000,000 (loan) (additional financing)</p>			

Government: \$2,078,000 (current) \$2,700,000 (additional)
Assumptions for Partner Financing Not Applicable

BCP = border-crossing point, CAIS = customs automated information system, CAREC = Central Asia Regional Economic Cooperation, CCC = Customs Coordinating Committee, CFCFA = CAREC Federation of Carrier and Forwarder Associations, CPMM = corridor performance measurement and monitoring, GACT = General Authority of Customs and Taxation, ICT = information and communication technology, IT = information technology, PWD = person with disability, Q = quarter, SDAP = social development action plan, TSCC = transport sector coordination committee.

^a Central Asia Regional Economic Cooperation and Asian Development Bank. 2014. [CAREC Transport and Trade Facilitation Strategy 2020](#). Manila.

^b Updated information for the overall project following additional financing.

^c The General Authority of Customs and Taxation (GACT) mentioned in output 2 has ceased to exist. All references to General Authority of Customs and Taxation are replaced by Mongolian Customs General Administration.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=47174-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Industry and Trade
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Initial Environmental Examination
12. Risk Assessment and Risk Management Plan

Supplementary Documents

13. eOperations Project Performance
14. Financial Management Capacity Assessment
15. Supplementary Appendix to the Economic Analysis
16. Social Development Action Plan